

One Belt, One Road (OBOR): China's regional integration initiative

SUMMARY

In 2013, China launched its 'One Belt, One Road' (OBOR) initiative. OBOR is China's broadly sketched vision of how it plans to boost regional integration in its wider neighbourhood. The initiative is unprecedented in terms of China's financial engagement and the innovative network-based project design which is intended to contribute to a more inclusive global governance. It contrasts sharply with existing treaty-based integration concepts where the geographical scope, partner countries, strategy, principles and rules were clearly defined at the outset.

China's new development vision has been seen as an alternative to regional trade agreements which do not include it; as a strategy for asserting its leadership role in Asia in response to the US pivot to Asia; as an economic outreach towards Asian countries for resolving territorial and maritime disputes by exporting China's domestic development policies; as a means of tapping into new sources of growth to check the marked downturn in its economy; as a tool for tackling the socio-economic divide between its inland and coastal provinces; and finally, as a venue for addressing security challenges on its western periphery as well as energy security issues.

The response to China's regional integration vision has been mixed. While the idea of enhancing connectivity has drawn considerable interest, given the huge infrastructure gaps across Asia, scepticism regarding China's potential hegemonic ambitions has prevailed notably among regional rivals India and Japan as well as the USA. Whether OBOR will be mutually beneficial for China and the EU will depend on the two sides agreeing on the 'rules of the game', including for joint projects in third countries. Potential synergies between OBOR and the EU connectivity initiatives are being explored under the EU-China Connectivity Platform.



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Geopolitical and economic drivers of China's regional integration strategy

When China launched OBOR in 2013, its relations with **Japan** had reached freezing point: high-level diplomatic ties had been [suspended](#) as a result of tensions over Japan's [revisionism](#) and territorial [disputes](#) (nationalisation by Japan of three Senkaku/Diaoyu Islands in the [East](#) China Sea in 2012 and creation of a Chinese Air Defence Identification Zone ([ADIZ](#)) covering these islands in 2013). **Sino-US relations** – for which President Xi Jinping coined the term '[new type of great power relations](#)', [implying](#) mutual respect and win-win cooperation rather than confrontation and conflict – were marked by the military and political implications of the [US Pivot](#) to Asia, [perceived](#) by China as an [encirclement](#) and the major cause for problems with its [emboldened](#) neighbours.

China's bilateral relations with the **Philippines** and **Vietnam**, two members of the Association of Southeast Asian Nations ([ASEAN](#)), had become increasingly [strained](#), given their conflicting territorial sovereignty [claims](#) to islands and maritime features in the South China Sea and the ensuing disputes over resource exploitation rights. In 2012, alleged illegal fishing resulted in a [standoff](#) between China and the Philippines at Scarborough Shoal, leading to its seizure by Chinese naval forces. In 2013, the Philippines [submitted](#) its dispute with China to international arbitration under the UN international law of the sea ([UNCLOS](#)), challenging China's 'historic' claims based on its [nine-dash line](#). Since 2009, China had taken on a more [assertive](#) and coercive approach in territorial matters, departing from its good neighbour policy pursued since the 1990s. This has triggered [military](#) hedging against China by several Asian countries.

In response to a complex geopolitical setting in the east, which China associated with '[uncertainty](#)', and recognising that its relations with the [USA and Japan](#) could not realistically be improved beyond a certain level due to structural competition, and that a great power needs the support of its neighbouring countries in order to rise further,¹ China [opted](#) for a **strategic westward orientation**, or '[March West](#)'.

This strategic choice was also driven by domestic political and economic imperatives as embodied by the '[two centenary goals](#)', China's overarching mid and long-term development objectives as defined by the Chinese Communist Party (CCP). The first centenary in 2021 relates to the founding of the CCP in 1921, and the second centenary in 2049 refers to the creation of the People's Republic of China in 1949. The first goal consists of turning China into 'a moderately prosperous society' by 2021, which requires a doubling of the 2010 GDP and GDP [per capita](#) by that year. The second goal is about turning the country into 'a prosperous, strong, democratic, culturally advanced, harmonious and modern socialist country' by 2049. In this connection, President Xi Jinping launched the [concept](#) of the [China Dream](#), or the **great rejuvenation of the Chinese nation**.

The achievement of these goals implies maintaining economic growth rates at constantly high levels. Given that the bulk of future global growth is [estimated](#) to take place in Asia, China's economic growth objectives are likely to be achieved through enhanced economic integration with its wider neighbourhood. China has therefore actively promoted the [upgrading](#) of the China-ASEAN Free Trade Agreement ([CAFTA](#)) and the negotiation of the ASEAN-led Framework for Regional Comprehensive Economic Partnership ([RCEP](#)). To the same end, it has [revitalised](#) the idea of creating a Free Trade Agreement of the Asia Pacific ([FTAAP](#)) under the Asia-Pacific Economic Cooperation ([APEC](#)), not least to offset its absence from negotiations for the US-led

Trans-Pacific Partnership ([TPP](#)) and the EU-US Transatlantic Trade and Investment Partnership ([TTIP](#)).

The One Belt, One Road (OBOR) regional integration initiative

OBOR's geographical extension, fields of cooperation and corridor design

The '[One Belt, One Road](#)' (OBOR) initiative consists of two trajectories: the **Silk Road Economic Belt**, an Eurasian overland trading road modelled on its ancient [prototype](#), running across Central Asia and Russia and linking China with Europe; and the **21st century Maritime Silk Road**, a trading route connecting China and Europe via southeast Asia, India and Africa and building among others on China's [maritime bases](#) in the Indian Ocean. The latter draws inspiration from Chinese admiral [Zheng He](#)'s naval expeditions to the African east coast during the [Ming](#) Dynasty (1368–1644).

Figure 1 – Silk Road Economic Belt and 21st Century Maritime Silk Road



Source: [One Belt and One Road](#), Xinhua Finance Agency, 2015.

Introduced in 2013 by President Xi Jinping in Kazakhstan, the 'Belt' originally [targeted](#) only [central Asia](#). The 'Road' was [presented](#) by him in the same year in Indonesia and was mainly directed at ASEAN. Since then, the two vaguely sketched trajectories linked by a [network](#) of port, rail, road and pipeline infrastructure along a modern and extended version of the Old Silk Road have been modified, as political decision-making about the project's extension has progressed. A '[Leading Group](#)' within the Chinese Government has been created to coordinate OBOR projects, and specific research projects at several Chinese research institutes have been set up to spur scholarly debate in and outside of China. The vagueness of what was originally perceived as an empty political slogan has gradually been filled with real content.

In March 2015, China's National Development and Reform Commission (NDRC), Ministry of Foreign Affairs and Ministry of Commerce published jointly the [Visions and Actions](#) plan on the framework underpinning OBOR. It explains the initiative as a **flexible, open and inclusive** cooperation framework which does not seek conformity but envisages

diversified modes of cooperation to enable all OBOR countries, both developed and developing, to cooperate with greater parity. It sets out five fields of cooperation or layers of [connectivity](#):

- **policy coordination** based on established or new bilateral or multilateral mechanisms: China does not see overlapping memberships in cooperation mechanisms as contradictory, but rather, as a way of avoiding the kind of forced choices between different cooperation formats that had to be made in Ukraine²;
- **facilities connectivity**: building and upgrading overland and [maritime](#) transport, [energy](#) and communication infrastructure³;
- **trade facilitation**, to be accomplished by simplifying customs clearance systems and quarantine processes; improving market access and eliminating trade barriers; simplifying foreign investment procedures; and creating more free trade zones. For the moment, this does [not](#) require the drafting of standard foreign trade agreements or the establishment of more elaborate forms of regional integration (customs union, common market, economic integration, and economic and political integration);
- deepening **financial integration**, involving China-supported multilateral financial institutions and including the promotion of the Chinese currency in bilateral trade;
- **people-to-people exchanges**.

China estimates that OBOR involves potentially [65 countries](#) and [4.4 billion](#) people. Enhancing interconnectivity in a geographical area which generates roughly [55%](#) of global GNP, represents about 70% of global population and has an estimated 75% of known energy reserves, is likely to have a lasting and significant impact. However, - projects will take 30 to 35 years to accomplish and may result in financial overstretch. China is optimistic: it aspires to achieve an annual trade worth [US\\$2.5](#) trillion between the countries located along OBOR within ten years.

Figure 2 shows a web of [six](#) east-west or north-south trans-regional **economic corridors**

Figure 2 – The six economic corridors of the 'One Belt, One Road' initiative



Source: [The Grand Design of China's New Trade Routes](#), Stratfor, 24 June 2015.

that run parallel to or link the 'Belt' and the 'Road'. These economic corridors differ largely in size and are at various stages of planning and implementation, with some relying on existing infrastructure or projects integrated into the OBOR initiative.

A case in point is the Indochina Peninsula Corridor, where China's engagement with the five Mekong River countries – Burma/Myanmar, Cambodia, Laos, Thailand and Vietnam – can build on the Greater Mekong Sub-region ([GMS](#)) Project led by the Asian Development Bank ([ADB](#)) and may [intersect](#) with the [Master Plan](#) on ASEAN Connectivity. In [2015](#), the Lancang-Mekong Cooperation [framework](#) was created as a new mechanism for cooperation in this economic corridor. While the ADB focuses on east-west links with [mixed](#) success, China concentrates on north-south connections.

The [China-Pakistan Economic Corridor](#) (CPEC) and the Bangladesh-China-India-Myanmar Economic [Corridor](#) ([BCIMEC](#)) have been under consideration for several years. The [China-Mongolia-Russia Corridor](#), by contrast, was created as recently as 2014 and is the result of [trilateralism](#) between the participating countries. After the April 2015 earthquake in Nepal, the India-Nepal-China [Corridor](#) was added to OBOR in May 2015.

Since OBOR is southward and westward-oriented, it does not incorporate Japan, North and South Korea. However, there is an [interest](#) in improving connectivity with the [Koreas](#) as part of the [struggle](#) to include some northeast Chinese provinces in OBOR, which were initially excluded from its trajectory. Fresh UN Security Council [sanctions](#) against North Korea in March 2016, however, are likely to bring projects to a halt.

OBOR could be perceived as a strategic framework allowing the Chinese Government to manage its infrastructure projects scattered across Asia, Africa and Europe in a more coherent manner. It combines different foreign and domestic policies with existing and new political and financial cooperation mechanisms in a new geographical format.

OBOR's political and financial cooperation mechanisms

Political cooperation on OBOR has taken place at multiple levels, using [existing](#) regional organisations such as the Shanghai Cooperation Organisation ([SCO](#)) for Central Asia; ASEAN for Southeast Asia; the China-Arab States Cooperation Forum ([CASCF](#)) for the Middle East; the Forum on China-African Cooperation ([FOCAC](#)) for Africa; and, to a much lesser extent, the [BRICS](#) (Brazil, Russia, India, China, and South Africa) format.

As regards Europe, the [16+1 format](#) (comprising 11 central and eastern European (CEE) countries, five Western Balkan countries and China) was set up in 2012, one year before OBOR was launched. At the 2015 EU-China summit, OBOR was incorporated as a new dimension to the EU-China strategic partnership. It has added strength to the EU-China dialogue on connectivity in the Asia-Europe Meeting ([ASEM](#)) format, which has featured [prominently](#) on the ASEM [agenda](#) in recent years.

OBOR provides a framework for new multilateral institution-building, such as the China-led Asian Infrastructure Investment Bank ([AIIB](#)) (see box on the next page). It adds multilateral funding (US\$100 billion in authorised capital), leaving also a [potential](#) role for the BRICS New Development Bank ([NDB](#)). OBOR-related financial cooperation between China and Europe may further [expand](#) as a result of China's [membership](#) in the European Bank for Reconstruction and Development ([EBRD](#)) since January 2016 and the recent opening by the European Investment Bank ([EIB](#)) of an office in Beijing.

China has injected considerable capital into OBOR from various sources: the US\$40 billion New Silk Road [Fund](#), the US\$20 billion China-ASEAN Investment Cooperation [Fund](#), the US\$3 billion Investment Cooperation [Fund](#) between China and the CEE

countries, China's sovereign wealth fund ([US\\$746 billion](#)) and its foreign exchange reserves (US\$3.19 trillion as of May 2016), which the country [seeks](#) to invest in higher-yielding assets than [US Treasury Bonds](#).

Large state-owned enterprises (SOEs), which dominate the Chinese infrastructure-related sectors, are [expected](#) to have a major stake in OBOR's first implementation stage, as they are known to enjoy strong financial backing from [China's policy banks](#): Export-Import Bank of China (EXIM), China Development Bank (CDB) and Agricultural Development Bank of China (ADBC). The massive export of China's impressive financial firepower will contribute largely to further the internationalisation of its currency, the renminbi (RMB), through cross-border RMB settlement and RMB-labelled loans, and thus reinforce China's role in global economic governance.

The Asian Infrastructure Investment Bank

After the voting rights [reform](#) in the US-led International Monetary Fund (IMF) and World Bank ([IBRD](#)), aimed at taking China's increased economic weight as the world's second largest economy into account was finally implemented after a long deadlock, the country initiated the creation of the Asian Infrastructure Investment Bank (AIIB) in 2014. In January 2016, after all 57 prospective founding members had [signed](#) the AIIB's [Articles of Association](#), the Beijing-based bank started operations.

China holds a [30.34%](#) stake in the AIIB, which translates into 26.06% of the bank's voting rights. This is more than the next five biggest investors' shares combined: India (7.51%), Russia (5.93%), Germany (4.15%), South Korea (3.5%), and Australia (3.46%). With 75% of voting rights required for major operational and financial decisions, China is the only AIIB member enjoying a de facto veto right.

In 2014, the proposal to set up the AIIB [divided](#) the Western world into joiners and non-joiners, including the USA and Japan. Now a fact, the bank has challenged the regional if not [global governance](#) paradigm by claiming its own ground alongside the Japan-led Asian Development Bank (ADB) and the US-led World Bank. Some see it as an alternative and others as a complement to funding from existing regional and international financial institutions.

The AIIB has [pledged](#) to lend 'lean, green, and clean'. It remains to be seen whether it will set itself apart from the lending policy of other multilateral development banks (MDBs) by ruling out [conditioning](#) the provision of loans on privatisation or deregulation in recipient countries, in line with China's scepticism about the free market policies some established MDBs advocate.

A [comparison](#) of the AIIB's environmental and labour standards with those of the World Bank's International Finance Corporation ([IFC](#)) posits that although they are modelled on the IFC standards, they do not offer the same level of protection. Although a larger share of AIIB members than World Bank members have [signed up](#) to core human rights instruments, there is room for improvement in terms of clear language, a grievance mechanism and disclosure policy.

OBOR's significance for China

OBOR's geopolitical significance for China

OBOR gives China an opportunity to raise its regional and international profile as a responsible global power by providing public goods separately from, but in the spirit of, the [G20](#) global infrastructure initiative, and by assuming significant financial risks involved in individual projects from which other investors would have shied away.

OBOR is likely to [expand](#) significantly China's political and economic [leverage](#) over its neighbourhood, since most of the countries receiving Chinese funds for new infrastructure will ultimately be drawn deeper into China's trade and finance orbit and

be expected to support its rise in all respects. Some analysts have therefore dubbed OBOR the [Chinese](#) Marshall Plan [for Asia](#). Like the USA through its Marshall Plan for Europe after the Second World War, China is said to be using its economic clout to achieve foreign policy objectives, one key [difference](#) being that it reportedly has 'no political strings attached'.

OBOR may also be seen as an economic outreach initiative towards certain Asian countries with which China has long-standing territorial (with [India](#)) and maritime [disputes](#) (to date mainly the Philippines and Vietnam), through the export of China's development policies (growth through infrastructure building). The Chinese 'win-win' [calculus](#) would thus be to create economic benefits for Asian disputants [in return for](#) their acceptance of the prevalence of Chinese territorial and maritime rights.

Although OBOR has attracted not only small and medium-sized Asian countries suffering from energy and transport infrastructure shortage (such as Cambodia and Pakistan), or wishing to generate multiplier effects (such as [Singapore](#)), but also two main regional competitors – Russia and India, scepticism persists to varying degrees among the former and the latter alike as regards China's geostrategic and military ambitions, notably following its intensive [land reclamation](#) activities in the South China Sea.

After **Russia's** geopolitical [turn](#) to China, OBOR has further strengthened Sino-Russian ties. Russia's agreement at the July 2015 [SCO summit](#) in Ufa (Russia) to align the Russian-led Eurasian Economic Union ([EEU](#)) with OBOR testifies to China's shifting [weight](#) in their relations. However, [analysts](#) have raised doubts as to whether the EEU and OBOR, given their conceptual differences, may be successfully combined.

OBOR is also likely to have a major impact on China's relation with **India**, which is included in two of the economic corridors. However, India promotes its own [Mausam project](#); the China-Pakistan Economic Corridor is [contentious](#), as it runs through the disputed region of Kashmir; and India has [concerns](#) about the BCIM Economic Corridor, perceiving it as part of China's '[string of pearls](#)' [encirclement](#) strategy. These concerns have translated into an AIIB charter [provision](#) that requires disputants' prior agreement to project financing in disputed territory. India continues to be wary of what it perceives as China's 'unilateral initiative' and has boosted cooperation with Japan in infrastructure projects.

OBOR will spur fierce [competition](#) for infrastructure bids between China and **Japan**, the latter being a key infrastructure [player](#) in southeast and south Asia. Recently, Japan was [outbid](#) for a high-speed rail line in Indonesia, since China agreed to [provide](#) guarantee-free loans.

Next to Japan, the **USA** is another regional player completely outside of OBOR's scope. The US vision of a [New Silk Road](#) Initiative (NSRI), envisaged back in 2011, was [designed](#) as a post-conflict agenda for Afghanistan after the US withdrawal from the country and its disengagement from Central Asia, and similarly concentrated on boosting energy and transport connectivity, epitomised by the Turkmenistan-Afghanistan-Pakistan-India ([TAPI](#)) natural gas pipeline and the Central Asia South Asia Electricity Transmission and Trade Project, or [CASA-1000](#), for hydropower export from Kyrgyzstan and Tajikistan.

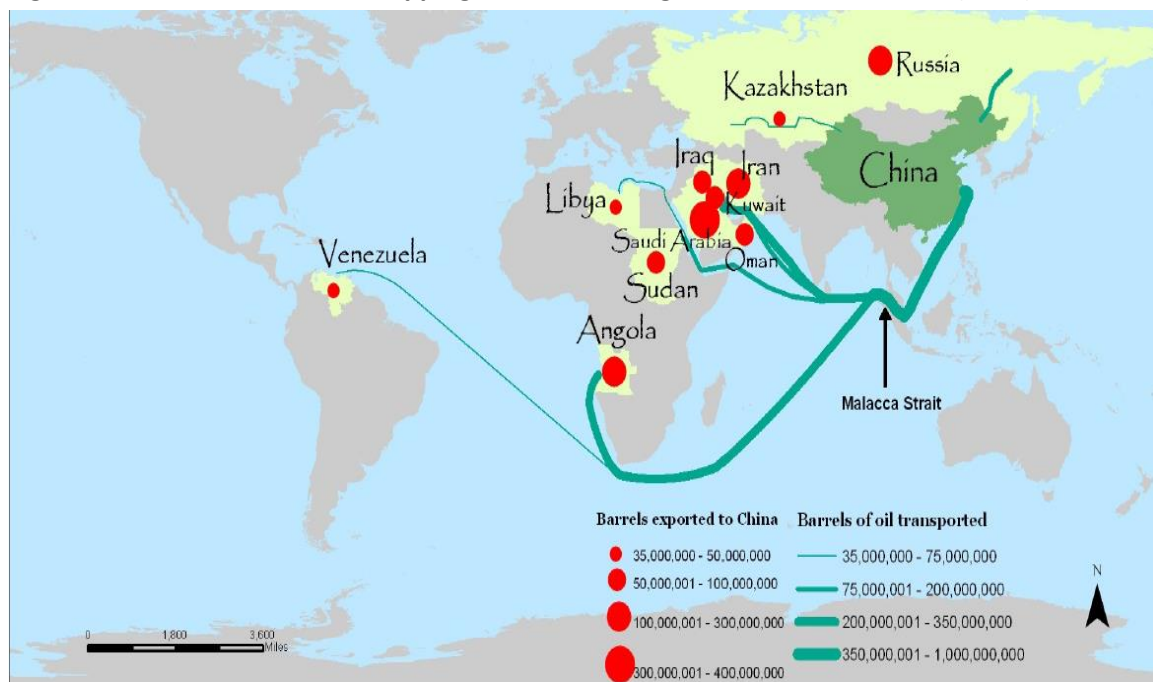
[Compared](#) with the current Chinese funding vehicles and emerging multilateral mechanisms which signal long-term engagement, the US financial commitment was low-key and no new regional institutions or fora were established. The USA [embraces](#) China's 'Belt' as a positive contribution to the region's development as long as it is

mutually beneficial for participants. It is, however, wary of China's conflictual posture along its 'Road', which travels through the South China Sea, and where Sino-US conflicts of interest arise from China's assumed ambition to gain regional maritime domination. In the recent past, this has given rise to repeated US freedom of navigation operations ([FONOP](#)) in the South China Sea to contain China's land reclamation and military activities and to defend the 'international rules-based [order](#)'.

OBOR's geostrategic significance for China

An estimated [85%](#) of China's imports and between 70-85% of its [energy supplies](#), mainly from the [Middle East](#), are sea-borne and pass through several [maritime chokepoints](#) such as the Strait of Malacca in the South China Sea which continue to be secured by the USA. China's [so-called](#) 'Malacca dilemma' refers to its [vulnerability](#) to potential maritime interdiction by the USA in the event of a war. China's **energy security**, which is also put at risk by [piracy](#) that is rife in this area, can be enhanced by creating alternative trade routes across land bridges in economic corridors linking China's south-western provinces directly to the Indian Ocean.

Figure 3 – China's reliance on shipping crude oil through the Strait of Malacca (2009)



Source: [Brutlag](#), D., Tufts University, 2013.

This requires the refurbishment or construction of roads, railway lines, oil and gas pipelines as well as intermodal transport hubs along the future economic corridors, specifically those that will be traversing Pakistan, Burma/Myanmar and Thailand. Shipping oil from the Middle East to the China-controlled deep-water Port of [Gwadar](#) in Pakistan and then carrying it by [road](#), [railway](#) or pipelines to Kashgar in China's western province Xinjiang instead of across the South China Sea will significantly cut transport costs and diminish the distance from 12 000 km at present, to [2 395 km](#).

OBOR's economic significance for China

OBOR [coincides](#) with China's comprehensive economic reforms which seek to [rebalance](#) its economy towards the 'new normal' of lower yet more sustainable growth. The economic transition from a growth model driven mainly by exports and foreign direct investment (FDI) to one led by domestic consumption, innovative industries and

services, has led to an economic [slowdown](#) which could derail into social instability following rising unemployment. Since the CCP's legitimacy is nowadays inextricably linked to the delivery of economic growth, OBOR's economic dimension consists in generating substantial foreign demand, notably for products manufactured by the heavy industries, which are being restructured in order to meet China's growth targets.

OBOR may thus be regarded as a second '**opening up**' of the Chinese economy, following the one in the late 1970s under [Deng Xiaoping](#)'s pioneering economic reforms, which primarily boosted the prosperity of China's coastal provinces, now with a focus on the less developed western and central provinces. It may also be perceived as another **economic stimulus package** for the period of domestic economic restructuring. Contrary to the first one launched during the global financial crisis in 2008 and worth [RMB 4 trillion](#) (more than €544 billion in June 2016), it is expected to be driven more strongly by foreign than domestic infrastructure demand.

Chinese infrastructure-related industrial sectors such as iron, steel, cement, aluminium and glass have accumulated [unprecedented overcapacities](#), currently operating at utilisation rates of around [70%](#), which not even China's ambitious [urbanisation](#) plans will succeed in absorbing. However, infrastructure construction across Asia could offload part of the excess capacities which reached [450 million tons](#) in the steel sector in 2014, with only 21 million tons needed for domestic railway construction. The construction of new transport facilities in Asia will reduce transport time and costs and stimulate demand for Chinese construction material, construction company services and high-value manufactured goods. It will spur another wave of China's companies '[going out or going global](#)', in order to take advantage of investment opportunities, explore new markets and gain experience from international exposure.

OBOR's significance for tackling structural imbalances and national security concerns

Building on China's [development strategy](#) for its western provinces, launched in 2000, OBOR aims to tackle **socio-economic imbalances** between the country's flourishing coastal provinces and less developed western and central provinces, which have translated into [gross income inequalities](#). Since all OBOR corridors depart from central or western provinces, the project could mitigate these significant disparities. Enhanced links between China's central and western provinces and new markets abroad, as well as lower wage levels, can incentivise the transfer of industry sectors from the coastal areas to these provinces in line with the '[flying geese](#)' [model](#), trigger more coastal-centre connectivity and the creation of production sites for higher value-added goods in the coastal provinces.

Next to their socio-economic relevance, the economic integration of China's western provinces into international value chains through enhanced trade linkages with neighbouring countries and beyond is aimed at [countering terrorism, separatism and religious extremism](#) in the region, notably in the [restive Xinjiang province](#).

OBOR's multiple challenges

Burma/Myanmar, Cambodia and Laos show the [highest](#) infrastructure risk levels among ASEAN countries, with a series of Chinese [projects](#) having been [halted](#) in the past. Risks may arise from leadership change as evidenced in respect of [Colombo Port City](#) in Sri Lanka in 2015. Security concerns stem from transport networks foreseen to be built in remote underdeveloped or [conflict-ridden](#) regions such as Burma/[Myanmar](#)'s restive northern provinces, Central Asia's [Fergana Valley](#) and [Pakistan's Balochistan](#), with the need to protect workers and infrastructure, a daunting challenge for China's non-

interference principle. New transit connections raise [environmental](#) and [social](#) concerns and the need of closer [legal](#) and [law enforcement cooperation](#) due to expected rising cross-border crime and the expansion of [Islamist terrorism](#). Economic [immaturity](#) of markets, limited market size, corruption, cumbersome customs clearance, low administrative efficiency and high [default risks](#) may lead to low- or zero-return projects.

OBOR's significance for the EU

OBOR's geopolitical significance for the EU

OBOR-induced investment and trade relations between China and countries in Eurasia, Africa and the Middle East are likely to [result](#) in China's growing political and economic leverage on these countries. What impact this will have on the EU's long-term geopolitical, economic and geostrategic interests will also depend on whether the EU responds to OBOR with one [voice](#) and coordinated policies.

Until recently, China's infrastructure investment in Europe targeted individual EU countries such as Greece and the [16+1 group](#) rather than the EU as a block. This has led to concerns about China's investment strategy pursuing ['divide and rule tactics'](#) capitalising on the lack of a common EU strategy – as evidenced by the past lack of consultation at EU level as regards the AIIB accession of a total of [14](#) EU Member States – and EU Member States' propensity to privilege their bilateral ties with China.

However, China's strong [interest](#) in [investing](#) in EU connectivity initiatives and in seeking synergies between them and OBOR, as voiced at the 2015 EU-China summit, could be a turning point. With the launch of the EU-China [Connectivity Platform](#), the EU has created a common framework for European cooperation with China on OBOR with a view to defining cooperation strategies, plans and policies and to clarifying the rules and principles governing joint projects including governance and rule of law issues. As OBOR is a ['moving concept'](#), it provides the EU with an [opportunity](#) to take part in shaping the agenda jointly with China and deepen EU-China relations.

OBOR's economic significance for the EU

China's OBOR-related activities will significantly bolster its influence on future land-based and maritime trade patterns in Asia, Africa and Eurasia, by diverting trade [trajectories](#) away from certain regions to others or from maritime trade to land-based trade routes or vice versa. The Chinese investment in the Port of [Piraeus](#), coupled with investment in high-speed [railways](#) from Piraeus to Budapest [and](#) from the Black Sea Port of Constanta to Vienna via Bucharest and Budapest, is a case in point. It opens new trade routes between China and the CEE countries.

Apart from narrowing the existing infrastructure gap between these countries and the 'old' EU Member States, the new links are expected to [reduce](#) shipping times for Chinese goods by ten days, thus increasing their competitiveness on the European market. Time will show whether these new links will equally benefit exports to China from CEE countries and the EU as a block. For the time being, the countries concerned run [huge](#) trade deficits with China. China's investment in the Port of Piraeus has turned the two Chinese-operated [piers](#) into a vibrant transshipment hub, while raising labour and safety regulation [issues](#). Whether this investment will translate into a net increase in the volume of EU-China trade, or merely in a relocation of logistics activities to Piraeus from other EU ports such as Antwerp, Hamburg or Rotterdam, remains to be seen.

Given the predominant role played by Chinese [SOEs](#) (whose competitive edge is largely

owed to the Chinese government's strong financial and non-financial support) in these infrastructure investments, some [analysts](#) doubt that OBOR will be equally beneficial for EU firms. [Others](#) suggest that the potential of enhanced connectivity be assessed against its negative effects such as increased organised crime, illegal trafficking, terrorist activities and more [counterfeited](#) goods.

OBOR's geostrategic significance for the EU

Improving infrastructure along the land-based Silk Road Economic Belt has the potential to contribute to economic development and regional stability in Eurasia from which both China and the EU could benefit in terms of new markets and energy security. OBOR thus opens opportunities for the EU to pursue its geostrategic ambitions in Central Asia by deepening the EU-China strategic partnership through cooperation in non-traditional security fields, [possibly](#) paving the way to EU-Russia reconciliation. The maritime trajectory of OBOR will sooner or later require the EU to take a more outspoken position on maritime disputes in the South China Sea in favour of an international rules-based order.

If OBOR is considered to be 'the most ambitious infrastructure-based security initiative in the world today', it may be [argued](#) that it could be advantageous for the EU to consider how its existing policy tools and strategies, such as the European Neighbourhood Policy ([ENP](#)) and the EU [Maritime Security Strategy](#), could be linked with OBOR and how this strategic alignment could feed into the EU's new [Global Strategy for Foreign and Security Policy](#) which came out on 29 June 2016.⁴

EU position

While there is as yet no official EU position on OBOR, the European Parliament in its 16 December 2015 [resolution](#) on EU-China relations took note '... of the launch of the 'One Belt, One Road' initiative aimed at constructing major energy and communication links across Central, West and South Asia as far as Europe'. It stressed 'that given the geostrategic relevance of this initiative it should be pursued in a multilateral way' and 'that it is of the utmost importance to develop synergies and projects in full transparency and with the involvement of all stakeholders.' It urged 'the VP/HR and the Commission to reflect on the impact of China's global investment policy, as well as its investment activities in the EU and its Eastern Neighbourhood.'

Outlook

Nearly three years after OBOR's launch, it has yielded mixed results. In general, it has triggered huge, albeit at times [sceptical](#), interest, since Asia faces a glaring infrastructure gap estimated at around [US\\$750 billion](#) per year until 2020. Central Asian countries are more [positive](#) about the 'Belt' than southeast and south Asian countries about the 'Road', given the tensions in the South China Sea and the disagreements on specific project conditions ([Thailand](#)). OBOR seems to be establishing a [centre-periphery](#) pattern between China and its neighbours based on asymmetric relationships likely to result in China's economic, political and military leverage over them. [Analysts](#) have pointed to the emergence of a new Sino-centric regional [order](#) as part of the 'rejuvenation of the Chinese nation'. The '[Chinese Marshall Plan](#)' risks prolonging China's state capitalism, with Chinese SOEs and state-owned policy banks playing a major role in OBOR's implementation, even though China [pledged](#) to allow the [market](#) to play a 'decisive role' in resource allocation. Despite China's efforts to portray itself as a provider of 'win-win' situations, its heavy-handed [approach](#) to [fishing vessels](#) from Vietnam and the Philippines and recent massive [land reclamation](#) in the South China

Sea, as well as its strong [military build-up](#) seem to have provoked a negative perception in its neighbourhood and [beyond](#).⁵ There is an obvious [tension](#) between China's declared intention to enhance 'win-win' relations with its neighbours, on the one hand, and to insist on sovereignty claims, on the other. Frictions between 'common interests' and China's 'core interests' could result in more [conflict](#), as it starts [enforcing](#) its claims more rigorously, expecting co-claimants to cede. Some [commentators](#) are sceptical about the possibility of reconciling China's conflicting goals of pursuing 'the path of peaceful development' and of '[resolutely](#) safeguarding China's sovereignty'. Other experts hold the view that the risks of a conflict in the region has increased in the past few years and that China's [uncompromising stance](#) in territorial matters presents a significant liability for regional stability.

Further reading

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Endnotes

- ¹ China's foreign policy: Prioritising the neighbourhood, Bondaz A., in: [Explaining China's Foreign Policy Reset](#), European Council on Foreign Relations (ECFR), 14 April 2015, p. 4.
- ² [Chinas Vision einer globalen Seidenstraße](#), Godehardt, N., Stiftung Wissenschaft und Politik (SWP), January 2016, p. 35.
- ³ The Digital Silk Road (DSR) seeks cooperation in next-generation mobile technology 5G, cloud computing, the Internet of Things, big data, e-commerce, digital investment, smart cities, and smart energy. The DSR was the subject of a [high-level meeting](#) in Brussels in July 2015.
- ⁴ For a more comprehensive analysis of the potential impact of China's foreign policy (including OBOR) on the EU, please see the related sections in: [China's foreign policy and external relations](#), Burnay, M., Carbonnet, A., Raube, K., Wouters, J., University of Leuven, July 2015.
- ⁵ In a 2014 opinion poll, 61% of respondents held the view that China had a very or somewhat negative impact on regional security, whereas 79% considered China's impact on regional economic development either very or slightly positive. [Power and Order in Asia: A Survey of Regional Expectations](#), Center for Strategic and International Studies (CSIS), July 2014.

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